

GUIDE TO TAXABLE POSSESSORY INTEREST

For Publicly-Owned Real Property

Taxable Possessory Interest (PI) – What is It?

When a person or entity leases, rents, or uses real estate owned by a government agency for its exclusive use, a taxable possessory interest occurs.¹ The taxation of this interest is similar to the taxation of owners of privately owned property. However, a holder of a possessory interest frequently pays significantly less property tax than the private owner of a similar property.



Possessory Interest Property Tax

Possessory interest tax helps pay the holders fair share of services and benefits that owners of similar taxable properties enjoy. These services and benefits include fire and police protection, schools, and local government.

The person or entity in possession of the property on the lien date (January 1) is liable for the entire subsequent fiscal year's taxes. Unfortunately, no provision is made for the Assessor to prorate the taxes if the possessory interest is terminated after the lien date.

Assessor's Responsibility

By law, every governmental agency in the county must respond to the Assessor's annual request for information. The information assists the Assessor in conducting fair and accurate possessory interest assessments.

Valuing Taxable Possessory Interest

A base year value is established for taxable possessory interests upon a change in ownership or completion of new construction under the guidelines of Proposition 13.² This value, by law, will only increase by a maximum of 2% per year, until a new reappraisable event (change of ownership or completion of new construction) occurs, or the property suffers a decline-in-value.

The valuation of possessory interests is different from other forms of property tax appraisal in two ways:

1. Only the rights held by the private user are valued.
2. The Assessor must not include the value of the lessor's retained rights in the property or any rights that will revert back to the public owner (the "reversionary interest") at the end of the lease.

As a result, possessory interest assessments are frequently less than the assessments of similar privately-owned property.

SPECIAL POINTS OF INTEREST:

Three Approaches
to Value are
Utilized:

- ◆ Income
- ◆ Comparative Sales
- ◆ Cost

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1. For an expanded definition see Revenue and Taxation (R&T) Code Section 61, 107-107.9, 480.6 and Property Tax Rules 20,21-22, and 27-28 available online at www.boe.ca.gov/info/links.htm.

2. A change in ownership occurs when a possessory interest is created, assigned, or upon the expiration of the lease per Revenue & Taxation Code Section 61 available online at www.boe.ca.gov/info/links.htm.

APPROACHES TO VALUE



When a new base year value is computed for a possessory interest property, the Assessor uses the income, comparative sales, or cost approach.³

The quality and quantity of the available market information, the type of interest being valued, and the estimated reasonable term of possession will determine which of the three valuation approaches is most appropriate to use.

“(THE INCOME
APPROACH) IS THE
MOST COMMONLY
USED METHOD FOR
VALUING A
POSSESSORY
INTEREST...”

Income Approach

This is the most commonly used method for valuing a possessory interest.

Using this approach, the PI value is estimated by first determining the net income. The net income results from subtracting the anticipated vacancy rate, collection loss, and management expenses from the economic income. The net income is then multiplied by a present worth factor to arrive at the PI value.

Using the economic net income for the term of possession allows the Assessor to value only the rights “possessed” by the tenant and exclude any non-taxable rights retained by the government landlord.

Comparative Sales Approach

In this approach to value, the sales price of the property or similar possessory interest properties is used to determine possessory interest value. Rent paid on the property and any other obligations assumed by the buyer are valued at present worth and added to the sales price.

Cost Approach

In the cost approach, the land and improvement values are determined separately. The land value is determined using the comparative sales approach or the income approach.

Consideration is given for the reversionary value of the land at the end of the anticipated term of possession. The improvement value is estimated by subtracting the accrued depreciation from the replacement cost.

Consideration is given for the estimated value of the improvements at the end of the anticipated term of possession. The total value of the PI is determined by adding the estimated land value to the estimated improvement value.



3. Base year value computation is fully explained in Property Tax Rule 21 available online at www.boe.ca.gov/info/links.htm.



Examples of Possessory Interests

Taxable PI's are created by almost any use of government-owned real property including the following examples:

- ◇ Boat slips on public lakes, rivers, or ocean marinas
- ◇ Mini-storage facilities under freeways
- ◇ Private walkways above city streets
- ◇ Airplane tie-downs and hangars at county airports
- ◇ Cattle grazing rights on government land
- ◇ Private entities leasing government-owned buildings
- ◇ Concession spaces at convention centers and fairgrounds
- ◇ Cabins and campgrounds on U.S. Forestry-owned lands
- ◇ Ski resorts on public lands
- ◇ Pro shops or golf operators at a public golf course on tax-exempt land
- ◇ Terminal and cargo spaces at airports
- ◇ Container operations at harbors
- ◇ Cable television right-of-way easements
- ◇ Retail business operations in a publicly-owned building
- ◇ Rental car facilities at airport
- ◇ Farming on community college district land
- ◇ Mining operations on public land
- ◇ Privately owned medical clinics operating in a county hospital
- ◇ Adult/night schools operating in a public school
- ◇ Christmas tree lots on a freeway underpass
- ◇ Stables on river annex
- ◇ Concert or air show on public land
- ◇ Employee housing

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For More Information:

You may also contact us for general property tax questions, in the following ways:

- ◆ Assessor's Website: To research comparable sales, verify valuations, download forms, learn how appraisals are made, and more, visit: <http://assessor.lacounty.gov>
- ◆ Assessor's Email: Send your questions, comments, and suggestions to: helpdesk@assessor.lacounty.gov
- ◆ Los Angeles County Property Tax Website: General information regarding property taxes, including how to read your tax bill and where to find answers to your questions. Visit: <http://www.lacountypropertytax.com>.
- ◆ Property Information Hotline: Minimal wait times, averaging less than a minute. Fast transfers to expert staff during normal business hours. Just call toll free 1.888.807.2111.
- ◆ Automated Interactive Voice System: Information on valuations and taxes can be obtained by entering the Assessor Identification Number from a property tax bill.
- ◆ Call 213.974.3838 or the toll free number above.



Si desea ayuda en Espanol, llame al numero 1.888.807.2111



*Valuing People
and Property*

Assessor's Public Service Locations

Main Office

Kenneth Hahn Hall of Administration
500 West Temple Street, Room 225
Los Angeles, CA 90012-2770
1.888.807.2111

North District Office

13800 Balboa Boulevard
Sylmar, CA 91342
818.833.6000

South District Office

1401 E. Willow Street
Signal Hill, CA 90755
562.256.1701

East District Office

1190 Durfee Avenue
South El Monte, CA 91733
626.258.6001

West District Office

6120 Bristol Parkway
Culver City, CA 90230
310.665.5300

Lancaster Regional Office

251 East Avenue K-6
Lancaster, CA 93535
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